

HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Results For the Six Months Ended 30 September 2000

PRESS RELEASE

The Board of Directors of Herald Holdings Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2000 are as follows:-

Consolidated Profit and Loss Account - Unaudited

For the six months ended 30 September 2000

	Note	Six months ended 30 September 2000 HK\$'000	1999 HK\$'000
Turnover	2	498,887	509,116
Cost of sales		<u>(384,002)</u>	<u>(376,993)</u>
Gross profit		114,885	132,123
Other revenue		4,166	3,788
Other net losses		(3,685)	(4,391)
Selling expenses		(12,437)	(12,651)
Administrative expenses		<u>(89,556)</u>	<u>(95,700)</u>
Profit from operations	2	13,373	23,169
Finance cost	3	(828)	(691)
Share of profit/(loss) of an associate		<u>335</u>	<u>(155)</u>
Profit from ordinary activities before taxation	3	12,880	22,323
Taxation	4	<u>(3,822)</u>	<u>(5,184)</u>
Profit from ordinary activities after taxation		9,058	17,139

Minority interests		<u>(1,003)</u>	<u>(4,420)</u>
Profit attributable to shareholders		<u>8,055</u>	<u>12,719</u>
Interim dividends		<u>6,252</u>	<u>6,432</u>
Interim dividends per share		<u>1 cent</u>	<u>1 cent</u>
Earnings per share	5		
- basic		<u>1.29 cents</u>	<u>1.96 cents</u>

Consolidated Balance Sheet - Unaudited

At 30 September 2000

	Note	30 September 2000 HK\$'000	31 March 2000 HK\$'000
Non-current assets			
Fixed assets		245,409	250,051
Interest in an associate		1,524	1,204
Other non-current financial assets		<u>14,849</u>	<u>7,519</u>
		<u>261,782</u>	<u>258,774</u>
Current assets			
Inventories	6	164,438	123,278
Trade and other receivables	7	184,590	99,396
Cash at bank and in hand		<u>64,259</u>	<u>159,453</u>
		<u>413,287</u>	<u>382,127</u>
Current liabilities			
Bank loans and overdrafts		15,383	5,770
Trade and other payables	8	165,684	121,487
Taxation		5,453	2,652
Interim dividend payable		6,252	-
Proposed final dividend		<u>-</u>	<u>18,756</u>

		<u>192,772</u>	<u>148,665</u>
Net current assets		<u>220,515</u>	<u>233,462</u>
Total assets less current liabilities		482,297	492,236
Non-current liabilities			
Deferred taxation		(744)	(687)
Minority interests		<u>(23,045)</u>	<u>(27,143)</u>
NET ASSETS		<u>458,508</u>	<u>464,406</u>
CAPITAL AND RESERVES			
Share capital	9	48,766	49,566
Reserves	10	<u>409,742</u>	<u>414,840</u>
		<u>458,508</u>	<u>464,406</u>

Notes on the unaudited interim financial report

1. Basis of preparation

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants except that comparative figures for the cash flow statement have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The same accounting policies adopted in the 1999/2000 annual accounts have been applied to the interim financial report.

2. Segmental information

The analysis of the principal activities and geographical location of the operations of the Group during the financial period are as follows:

	Group turnover		Profit from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities				
Electronic products	251,041	273,313	1,024	9,492
Non-electronic products	239,963	229,997	15,867	16,333
Non-manufacturing	7,883	5,806	(3,518)	(2,656)
	<u>498,887</u>	<u>509,116</u>	<u>13,373</u>	<u>23,169</u>

Geographical locations of operations

	Group turnover	
	Six months ended	
	30 September	
	2000	1999
	HK\$'000	HK\$'000
Europe		
United Kingdom	133,964	166,501
Other countries	79,974	88,045
North America	216,149	196,623
Asia	32,813	41,608
Other	35,987	16,339
	<u>498,887</u>	<u>509,116</u>

3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

Six months ended
30 September
2000
HK\$'000

Interest on borrowings	828	691
Depreciation	13,845	14,195
Net loss/(gain) on sale of fixed assets	<u>650</u>	<u>(55)</u>

4. Taxation

	Six months ended	
	30 September	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong taxation	2,749	4,949
Overseas taxation	924	235
Deferred taxation	57	-
Share of an associate's taxation	<u>92</u>	<u>-</u>
	<u>3,822</u>	<u>5,184</u>

The provision for Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the six months ended 30 September 2000. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$8,055,000 (1999: HK\$12,719,000) and the weighted average of 626,447,000 shares (1999: 647,951,000 shares) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2000 and 1999.

6. Inventories

The amount of inventories carried at net realisable value is HK\$12,034,000 (at 31 March 2000: HK\$13,047,000).

7. Trade and other receivables

Included in trade and other receivables are debtors and bills receivable (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 September	At 31 March
	2000	2000
	HK\$'000	HK\$'000
Within 1 month	124,709	55,696
2 – 3 months	30,532	17,561
Over 3 months	6,997	3,800
	<u>162,238</u>	<u>77,057</u>
Deposits, prepayments and other debtors	<u>22,352</u>	<u>22,339</u>
	<u>184,590</u>	<u>99,396</u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

8. Trade and other payables

Included in trade and other payables are creditors and bills payable with the following ageing analysis:

	At 30 September	At 31 March
	2000	2000
	HK\$'000	HK\$'000
Within 1 month	65,937	39,109
2 – 3 months	31,808	8,420
Over 3 months	2,908	488
	<u>100,653</u>	<u>48,017</u>
Accrued expenses and other payables	<u>65,031</u>	<u>73,470</u>
	<u>165,684</u>	<u>121,487</u>

BUSINESS REVIEW

The Group's turnover and profit attributable to shareholders for the six months to 30 September 2000 amounted to HK\$498,887,000 and HK\$8,055,000 respectively. These represent a decrease of 2% and 37% as compared with the corresponding period in the previous year.

During the period under review, the Group's gross profit was adversely affected by the prevailing weakness of sterling and euro, of which approximately 30% of the Group's turnover was denominated. Furthermore, in order to be competitive in the market place, the Group reduced the overall profit margins of its product lines. The Group's gross profit margin, expressed as a percentage of sales, was 23% for the six months under review, compared to 26% for the same period a year earlier. The reduction in gross profit margin was the major factor that accounted for the decrease in the gross profit and the net profit for the first six months.

Toys

In the first half of the financial year, the toy division performed well. However, throughout the period, the toy division experienced great difficulties as the toy industry as a whole suffered from the world-wide shortage of electronic components. It is most encouraging that the division has successfully finished all the production schedules as planned and ended the period with a 7% increase in turnover over the same period last year.

Computer Heads

The computer head division's performance in the first half was not satisfactory. Despite a 7% growth in turnover compared to the same period last year, the division had a net loss of HK\$2.6 million. This is primarily attributed to extra high costs associated with the development of the new half inch high capacity computer tape heads which the management anticipates to be of high demand in 2001. Commencing from April 2000 the division adopted a Vendor Managed Inventory Programme ("VMI") for a major customer. Previously, invoices were issued at the time the products were shipped from Hong Kong. Under the new programme, the division keeps the products in a warehouse in the USA and sales are not recognised until the customer draws the heads from the warehouse. As a result, the division has to keep a higher level of inventory which consequently ties up more working capital.

At the end of June 2000, the Group increased its holdings in the computer head division from 86% to 90% by acquiring additional shares in Herald Datanetics Limited from the minority shareholders. The total consideration for the additional interests was approximately HK\$3.3 million.

Houseware

The sales of the houseware division in the first six months were similar to those of the same period last year. The sales in the UK market had a 15% increase which was offset by

decreases of sales in Japan and the USA. The division has successfully developed a range of stainless steel cookware which initially has received very positive response from the buyers.

Timepieces

The turnover of the timepiece division in the first half decreased by 13% compared with the same period a year earlier. The business in the UK which accounted for 53% of the division's turnover in the current period under review experienced a difficult time due to weak sterling. Though "Pokemon" timepiece products performed very well in both France and Germany, they could not make up the shortfall in the UK.

Investment

In April 2000 the Group invested US\$1 million in UTM Systems, a company in Seattle, Washington, USA which specialises in e-commerce security solutions. Its main product is UTMmachine™ which provides a combined hardware-software solution to the security problems for e-commerce transactions on internet. The computer head division is secured as the supplier of this product. To date, the product has received positive response from some major institutions in the financial markets.

FINANCIAL POSITION

As in the past, the Group continued to sustain a good liquidity position without any long term debt funding. At 30 September 2000, the Group had a net cash surplus of \$49 million compared to \$154 million at 31 March 2000. The decrease of the net cash surplus was mainly due to the seasonality of the Group's business. Historically, at the end of September more working capital is needed for the higher level of inventory and trade receivables. In addition, the implementation of the VMI as mentioned above has lengthened the cash flow cycle of the computer head business. The toy division also requires more cash flow for a higher level of inventory particularly electronic components of which prices and delivery are volatile and unstable.

PROSPECTS AND GENERAL OUTLOOK

The directors are of the opinion that the overall situation in the second half of the current fiscal year is quite difficult. The business of the houseware division and the timepiece division in the UK will remain soft due to the continuing weakness of the sterling. As a seasonal pattern, the toy division's business has slowed down from the end of November. Meanwhile, the computer head division is ramping up its production output on the new half inch high capacity heads. Much effort is also being made to improve the yield of this

product. It is expected that the production of the new heads will be more steady in early 2001 and, hence, enable the division to return to profitability.

DIVIDENDS

The Directors have declared an interim dividend of 1 cent per share (1999: 1 cent). The total amount of dividend payment of HK\$6,252,000 was based on the total number of shares in issue as at 18 December 2000 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 18 January 2001 to shareholders registered in the Register of Members on 9 January 2001.

REGISTER OF MEMBERS

The Register of Members will be closed from 5 January 2001 to 9 January 2001, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 4/F Hutchison House, 10 Harcourt Road, Hong Kong for registration not later than 4:00 pm on 4 January 2001 in order that they may receive their dividend entitlement.

Herald Holdings Limited
Hong Kong, 19 December 2000

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This and other information about Herald Holdings Limited can be accessed via
www.irasia.com/listco/hk/herald